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STATE OF MONTANA

MILES COMMUNITY COLLEGE

REPORT ON AUDIT

Conducted Under Contract By
Janke, Winchell, Ehrlick & Co.
Certified Public Accountants

Fiscal Year Ended June 30, 1980

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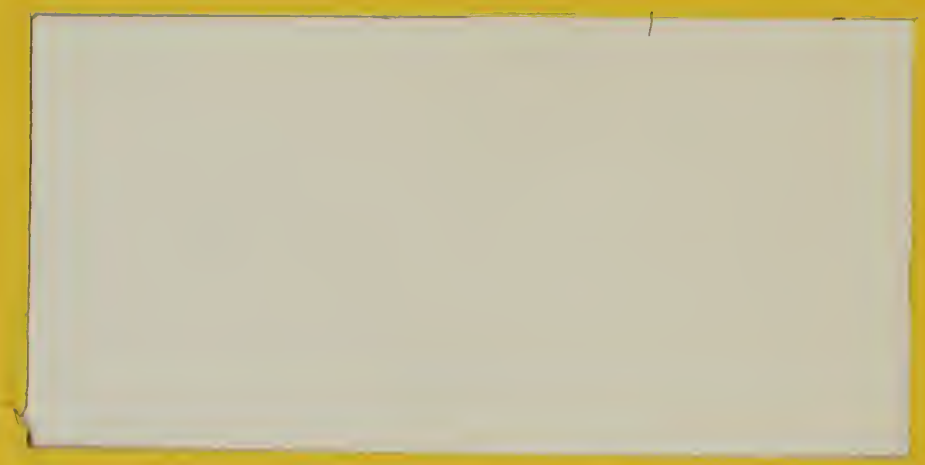

STATE OF MONTANA

MILES COMMUNITY COLLEGE

REPORT ON AUDIT

Conducted Under Contract By
Janke, Winchell, Ehrlick & Co.
Certified Public Accountants

Fiscal Year Ended June 30, 1980

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

ELLEN FEAVER, C.P.A.
DEPUTY LEGISLATIVE AUDITOR

JOHN W. NORTHEY
STAFF LEGAL COUNSEL

December 1980

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of Miles Community College for the year ended June 30, 1980.

The audit was conducted by Janke, Winchell, Ehrlick & Company, Certified Public Accountants, under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

Morris L. Brusett, C.P.A.
Legislative Auditor

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

Thomas L. Judge, Governor*	
Georgia Ruth Rice, Superintendent of Public Instruction*	
John Richardson, Ph.D., Commissioner of Higher Education*	
Lewy Evans, Jr.	1983
Ted James	1986
John L. Peterson	1982
Lola Hansen	1984
Shelly Hopkins	1981
Macy Pace	1985
Jeffrey B. Morrison	1987

* ex officio members

MILES COMMUNITY COLLEGE

BOARD OF TRUSTEES

James P. Lucas	1983
Gerald E. Rowen, M.D.	1982
Eilleen Carlson	1983
Jessica Stickney	1981
Norman Carey	1982
Jerry Kimball	1982
Robert Barthelmess	1981

ADMINISTRATION

Judson H. Flower, Ph.D.	President
John C. Koch	Administrative Assistant
Robert E. Hokom, Ph.D.	Dean, Instructional Services
W. Wayne Muri	Business Manager

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SUMMARY OF RECOMMENDATIONS

As a separate section in front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of Miles Community College is included as a separate section directly following the financial statements.

	Page
Attempt to standardize its billing procedures to insure that all fees are collected at or near the time of registration.	5
Agency Reply: Concur. See page 24.	
Make a concerted effort to collect delinquent loans and reduce its loan default rate.	6
Agency Reply: Concur. See page 24.	
Attempt to obtain new promissory notes for all nursing loans made during the year ended June 30, 1977.	6
Agency Reply: Concur. See page 24.	
Student aid in the form of free use of textbooks should be accounted for at fair market value or the practice should be discontinued.	6
Agency Reply: Concur. See page 24.	
Transfer all remaining funds in the hail insurance account to current unrestricted funds.	7
Agency Reply: Concur. See page 24.	
Update its physical inventory of equipment. Periodic test checks should be made to insure that the fixed asset listing is current and complete and that large items are not missing.	7
Agency Reply: Concur. See page 24.	
Maintain a subsidiary ledger of its land and buildings including their historical costs. For property acquired by gift, the basis of valuation should be fair market value at the date of the gift.	8
Agency Reply: Concur. See page 24.	
Additions to the subsidiary property records should be reconciled	

Page

to the appropriate general ledger expenditure accounts. 8

Agency Reply: Concur. See page 24.

Maintain a complete detail quarterly listing of students receiving fee waivers and recognize the total in its accounting records as revenue and expenditures. 8

Agency Reply: Concur. See page 25.

Record unpaid tuition as student accounts receivable in the College's accounting system. All tuition income should be recognized at the time of registration. Individual ledger cards should be maintained to support the accounts receivable control account. 9

Agency Reply: Concur. See page 25.

Review its Financial Aid Packaging Policy and amend any statements which could be interpreted as being discriminatory. 9

Agency Reply: Concur. See page 25.

All food service checks should be restrictively endorsed upon receipt. 10

Agency Reply: Concur. See page 25.

Business office employees should periodically compare the food service cash register tapes to the actual cash deposits. 10

Agency Reply: Concur. See page 25.

The Custer County Treasurer should be supplied with a list of the authorized warrant signers and be notified when changes occur. 10

Agency Reply: Concur. See page 25.

Utilize budget amendments for the transfer of budgeted amounts between line items of the budget. 10

Agency Reply: Concur. See page 25.

JANKE, WINCHELL, EHRLICK & CO.

certified public accountants

James N. Janke, CPA
James P. Winchell, CPA
Darrell E. Ehrlick, CPA

720 North 30th Street
Billings, Montana 59101
(406) 245-5136

Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of Miles Community College as of June 30, 1980, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Miles Community College as of June 30, 1980, and the changes in fund balances and the current funds revenues, expenditures and other changes for the year then ended, in conformity with generally accepted accounting principles.

September 19, 1980

Janke, Winchell, Ehrlick & Co.

Members American Institute of Certified Public Accountants

JANKE, WINCHELL, EHRLICK & CO.

certified public accountants

James N. Janke, CPA
James P. Winchell, CPA
Darrell E. Ehrlick, CPA

720 North 30th Street
Billings, Montana 59101
(406) 245-5136

Legislative Audit Committee
of the Montana State Legislature:

At your request, we have performed the procedures enumerated below with respect to the enrollment statistics as presented at page 23 of the Miles Community College report for the year ended June 30, 1980. Our review was made solely to assist you in evaluating the reasonableness of the aforementioned enrollment statistics, and our report is not to be used for any other purpose. The procedures we performed are summarized as follows:

1. We reviewed the procedures for calculating full-time equivalents (FTE's).

2. We verified the accuracy of the total enrollment and FTE's.

3. We compared FTE's included in the enrollment statistics reported to the Office of the Commissioner of Higher Education with FTE enrollment at the end of the quarter.

4. We traced a sample of students to fees paid as included in the registration packets.

5. We traced a sample of drop cards to grade lists and a sample of grade lists to drop cards.

Based upon the aforementioned procedures, it appears that the College prepared the aforementioned enrollment statistics in accordance with guidelines set forth by the Office of the Commissioner of Higher Education in its publication, Registrar's Manual for Reporting Enrollment Data.

September 19, 1980

Janke, Winchell, Ehrlick & Co.

Members American Institute of Certified Public Accountants

JANKE, WINCHELL, EHRLICK & CO.

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720 North 30th Street
Billings, Montana 59101
(406) 245-5136

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial statements of Miles Community College for the year ended June 30, 1980, and have issued our report thereon dated September 19, 1980. As a part of our examination, we made a study and evaluation of the College's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist the auditor in planning and performing his examination of the financial statements.

Our examination of the financial statements made in accordance with generally accepted auditing standards, including the study and evaluation of the College's system of internal accounting control for the year ended June 30, 1980, that was made for the purposes set forth in the first paragraph above, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. However, such study and evaluation disclosed conditions that we believe to be material weaknesses, excluding those which were corrected before they came to our attention. The conditions pertain to extension classes, property, plant and equipment, fee waivers, accounts receivable, internal control of cash and cash receipts and the College operating budget. These conditions are discussed at pages 4 through 10.

The foregoing conditions were considered in determining the nature, timing, and extent of audit tests to be applied in our examination of the financial statements, and this report of such conditions does not modify our report dated September 19, 1980, on such financial statements.

September 19, 1980

Janke, Winchell, Ehrlick & Co.

Members American Institute of Certified Public Accountants

C O M M E N T S

General

In 1939 the Legislative Assembly passed legislation enabling the establishment of Custer County Junior College. In 1966 the name was changed to Miles Community College. The community college district was established in 1970 by action of the local joint High School-College Board which governed the College up to that time. In 1971 the Northwest Association of Schools and Colleges granted full accreditation to Miles Community College.

Under the laws of Montana the Board of Regents of Higher Education are vested with the general supervision of the College. The Board of Trustees of Miles Community College oversees the operation of the College. The College President is responsible for the immediate direction, management and control of the Institution.

Miles Community College has the authority to grant associate in arts and associate in applied science degrees for completion of programs of 90 hours of course work. The College also awards certificates of satisfactory completion of progress of fewer than 90 credit hours.

The College enrollment is 365 full-time students and 543 part-time students.

The primary sources of revenue to operate the College come from the State's general fund appropriation and the district mill levies. Revenue is also generated from student tuition, fees and auxiliary enterprise operations.

Extension Classes

During the year ended June 30, 1980, Miles Community College and Little Big

Horn College at Crow Agency, Montana, entered into an agreement whereby Miles would provide extension classes at Little Big Horn College. The College was to receive tuition of $2 per credit hour for students enrolled in the courses at Little Big Horn. At the time of our examination, the College had neither billed nor received the revenues generated by the $2 fee. It appeared that no formal billing procedure had been implemented to insure that the fees would be collected on a timely basis. The total revenues generated by the tuition was approximately $3,000.

Recommendation

For all extension class courses, the College should attempt to standardize its billing procedures to insure that all fees are collected at or near the time of registration.

Student Loans

The College participates in the National Direct Student (NDSL) and Nursing Loan (NSL) Programs whereby the Federal government provides approximately 90 percent of the funds to be loaned to the students. It is the responsibility of the College to monitor the loan funds and follow-up on delinquent accounts. At June 30, 1980, the total amount of loans in default as a percentage of loans in repayment status was approximately 39 percent.

Students receiving student loan advances are required to sign promissory notes. The College has been unable to locate promissory notes for nursing loans made during the year ended June 30, 1977. Without the notes as evidence of the students' debt, the repayment of the loans could be in jeopardy.

Recommendation

We recommend the following:

1. The College make a concerted effort to collect delinquent loans and reduce its loan default rate.
2. The College attempt to obtain new promissory notes for all nursing loans made during the year ended June 30, 1977.

Bookstore

Students who have a rodeo or basketball scholarship are permitted free use of textbooks. The College requires a $25 student deposit. The Bookstore manager maintains a listing of books on loan to students. If the books are not returned, the student's deposit is forfeited. The amount of student financial aid resulting from this procedure cannot be determined from present Bookstore records. Accordingly, Bookstore profits and student financial aid amounts are both understated. In an operation the size of the Bookstore, periodic comparisons of gross profit percentages to prior period percentages is a vital element of internal control. This comparison, to be effective, requires accurate accounting for sales, purchases, and inventories. The practice followed, as outlined above, should be accounted for if accurate gross profit percentages are to be computed.

Recommendation

Student aid in the form of free use of textbooks should be accounted for at fair market values or the practice should be discontinued.

Hail Insurance

During the summer of 1978, the College sustained extensive hail damage for which insurance proceeds were subsequently received. The insurance proceeds were recorded in restricted funds, but actual repairs were made from unrestricted funds. For financial statement purposes, the hail insurance amount has been reclassified to current unrestricted funds.

Recommendation

The College should transfer all remaining funds in the hail insurance account to current unrestricted funds.

Property, Plant and Equipment

The College completed a physical inventory of equipment in March 1979. All equipment on hand at that date was tagged with an identification number and a detailed listing of these assets is now maintained, including the cost of each item. However, the physical inventory has not been updated since its completion. Also, the College does not maintain a listing of its land and buildings and the related costs. At June 30, 1980, this information was compiled and a reasonable balance for land and buildings was determined for financial statement purposes. However, improvements are necessary in fixed asset recordkeeping.

Recommendation

We recommend the following:

1. At least annually, the College should update its physical inventory of equipment. Periodic test checks should be made to insure that the fixed asset listing is current and complete and that large

items are not missing.

2. The College should maintain a subsidiary ledger of its land and buildings including their historical costs. For property acquired by gift, the basis of valuation should be fair market value at the date of the gift.
3. At least annually, additions to the subsidiary property records should be reconciled to the appropriate general ledger expenditures accounts.

Fee Waivers

The College does not maintain adequate accounting control of fee waivers. A handwritten listing of students receiving fee waivers is maintained but there are no assurances that such a listing is complete. Also, the waivers are not recognized in the College's accounting records.

Recommendation

The College should maintain a complete detail quarterly listing of students receiving fee waivers and recognize the total in its accounting records as revenue and expenditures.

Accounts Receivable

The College follows the procedure of separating registration cards of students that make only partial payment of their tuition at time of registration. These account receivables are generally paid shortly after registration. There is no general ledger control over this type of receivable.

Recommendation

The College should record unpaid tuition as student accounts receivable in the College's accounting system. All tuition income should be recognized at the time of registration. Individual ledger cards should be maintained to support the accounts receivable control account.

Financial Aid

In the College's written Financial Aid Packaging Policy several items are listed regarding awarding of financial aid. One policy states that preference will be given to nursing students for initial Supplemental Educational Opportunity Grants (SEOG) awards since they are most likely to return the second year and be eligible for continuing SEOG. Although we found no instances where it appeared that a student had been denied financial aid because of discriminatory practices, wording in the policy may be viewed as discriminatory.

Recommendation

The College should review the Financial Aid Packaging Policy and amend any statements which could be interpreted as being discriminatory.

Internal Control

The following internal control weaknesses were noted during our tests of cash receipts:

1. A restrictive endorsement is not placed on food service checks as soon as they are received.
2. The Business Office does not compare food service cash register tapes

with actual cash deposits.

3. The Custer County Treasurer does not have a list of the authorized warrant signers.

Recommendation

We recommend the following:

1. All checks should be restrictively endorsed upon receipt.
2. Business office employees should periodically compare the food service cash register tapes to the actual cash deposits.
3. The Custer County Treasurer should be supplied with a list of the authorized warrant signers and be notified when changes occur.

College Operating Budget

The Board of Trustees has granted the College permission to transfer budgeted amounts between line items as needed as long as the total budget authority is not exceeded. This obviates the entire budget process.

The primary benefit of an itemized or departmental budget is the control function. The Board of Trustees should use this type of control in governing the College's operations. Typically, any budget will require subsequent amendments allowing for the transfer of spending authority between line items.

Recommendation

We recommend the Board of Trustees utilize budget amendments for the transfer of budgeted amounts between line items of the budget.

Prior Audit Findings

We have reviewed the audit findings and recommendations contained in the audit report for the year ended June 30, 1978. Except for the following comments, the College appears to have compiled with all recommendations or circumstances have changed to make the recommendations inapplicable.

Accounting System

Recommendation: We recommend the College use the accrual basis of accounting, including recognition of fee waivers.

Finding: Fee waivers continue to be a problem. See comment at page 8.

College Operating Budget

Recommendation: Utilize budget amendments for the transfer of budgeted amounts between line items of the budget.

Finding: This continues to be a problem. See comment at page 10.

Bookstore

Recommendation: Student aid in the form of free use of textbooks should be accounted for at fair market values or the practice should be discontinued.

Finding: This continues to be a problem. See comment at page 6.

Student Loans

Recommendation: We recommend the following:

1. The College give more attention to the delinquent loan accounts by pursuing effective collection procedures.

2. The College make a concerted effort to locate the missing notes and establish procedures to minimize the risk of loss of note files.

Finding: This area continues to be a problem. See comment at page 5.

Property, Plant and Equipment

Recommendation: We recommend the following:

1. The College should complete the physical inventory of property began in December, 1977.
2. The physical inventory listing should include cost or other valuation for assets.
3. The Board of Trustees should adopt a minimum capitalization policy.

Finding: The College complied with the above recommendations, but other problems were discovered. See comment at page 7.

Cash - Internal Control

Recommendation: The Custer County Treasurer should be supplied with a list of the authorized warrant signers and be notified when changes occur.

Finding: This continues to be a problem. See comment at page 9.

Cash Receipts and Revenue - Internal Control

Recommendation: We recommend the following:

1. All checks should be restrictively endorsed upon receipt.

2. Business Office employees should periodically compare the food service cash register tapes to the actual cash deposits.

Finding: This area continues to be a problem. See comment at page 9.

Student Tuition

Recommendation: The College should record unpaid tuition as student accounts receivable in the College's accounting system. All tuition income should be recognized at the time of registration. Individual ledger cards should be maintained to support the accounts receivable control account.

Finding: This continues to be a problem. See comment at page 8.

Final Comments

We have reviewed the comments and recommendations contained in this report with officials of Miles Community College.

We wish to express our appreciation to those officials and their staff for the cooperation and assistance we received from them during our audit.

September 19, 1980

Janke, Winchell, Ehrlick & Co.

FINANCIAL STATEMENTS

MILES COMMUNITY COLLEGE
Balance Sheet
June 30, 1980

ASSETS

Current Funds:	
Unrestricted:	
Cash	$ 76,957
Investments (Note 2)	35,600
Accounts receivable	3,232
Due from other funds	1,829
Inventories	14,573
Prepaid expenses	18,644
Total unrestricted	150,835
Restricted:	
Cash	7,719
Investments (Note 2)	19,400
Accounts and grants receivable	50,547
Total restricted	77,666
Total current funds	228,501
Loan Funds:	
Cash	20,025
Student loans receivable (Note 3)	104,461
Accounts receivable	652
Total loan funds	125,138

LIABILITIES AND FUND BALANCES

Current Funds:	
Unrestricted:	
Accounts payable and accrued liabilities	$ 13,270
Deferred revenues	1,575
Fund balance	135,990
Total unrestricted	150,835
Restricted:	
Accounts payable	46
Due to other funds	1,316
Fund balance	76,304
Total restricted	77,666
Total current funds	228,501
Loan Funds:	
Due to other funds	513
Fund Balances:	
Federal grants refundable	117,462
College contribution - restricted	13,051
Noncapital deficit - unrestricted	(5,888)
Total fund balances	124,625
Total loan funds	125,138

See Notes to Financial Statements.

MILES COMMUNITY COLLEGE
Balance Sheet - continued
June 30, 1980

ASSETS

Plant Funds:	
Unexpended:	
Grants receivable	$ 3,178
Total	3,178
Renewal and Replacement:	
Cash	1,734
Investments (Note 2)	40,000
Total	41,734
Retirement of Indebtedness:	
Investments (Note 2)	9,000
Total	9,000
Investment in Plant:	
Land	112,232
Construction in progress (Note 4)	935,691
Buildings	2,426,014
Equipment	305,602
Total investment in plant	3,779,539
Total plant funds	3,833,451
Agency Funds:	
Cash	5,290
Accounts receivable	3,077
Total agency funds	8,367

LIABILITIES AND FUND BALANCES

Plant Funds:	
Unexpended:	
Cash overdraft	$ 284
Fund balance	2,894
Total	3,178
Renewal and Replacement:	
Fund balance	41,734
Total	41,734
Retirement of Indebtedness:	
Cash overdraft	252
Fund balance	8,748
Total	9,000
Investment in Plant:	
Payable to contractor and state of Montana	95,107
Bonds and notes payable (Note 4)	921,452
Fund balance	2,762,980
Total investment in plant	3,779,539
Total plant funds	3,833,451
Agency Funds:	
Accounts payable	250
Deposits held in custody for others	8,117
Total agency funds	8,367

See Notes to Financial Statements.

MILES COMMUNITY COLLEGE
Statement of Changes in Fund Balances
For the Year Ended June 30, 1980

	CURRENT FUNDS		LOAN FUNDS	PLANT FUNDS			
	Unrestricted	Restricted		Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant
Revenues and Other Additions:							
Educational and general revenues	$1,040,593						
Auxiliary enterprises revenues	85,197						
District levies and building fees - restricted					$ 9,998	$ 28,929	
Government grants and contracts - restricted		$ 271,088		$ 209,555			
Other grants, contracts and donations		9,166					
Other sources		561	925				
Interest on loans receivable			475				
Expended for plant facilities (including $67,945 charged to current funds expenditures)							1,046,810
Retirement of indebtedness							23,600
Total revenues and other additions	1,125,790	280,815	1,400	209,555	9,998	28,929	1,070,410
Expenditures and Other Deductions:							
Educational and general expenditures	1,031,659	248,395					
Auxiliary enterprises expenditures	105,423						
Indirect costs recovered		1,326	528				
Loan cancellations and write-offs			568				
Collection costs			340				
Expended for plant facilities				978,088	777		
Retirement of indebtedness						23,600	
Interest on indebtedness						9,747	
Total expenditures and other deductions	1,137,082	249,721	1,436	978,088	777	33,347	
Transfers Among Funds - Additions (Deductions):							
Mandatory:							
Construction in progress financed by notes payable, including current amount due contractor of $95,107				725,359			(725,359)
Nonmandatory	(2,590)	2,179	411				
Total transfers	(2,590)	2,179	411	725,359			(725,359)
Net increase (decrease) for the year	(13,882)	33,273	375	(43,174)	9,221	(4,418)	345,051
Fund balance July 1, 1979	149,872	43,031	124,250	46,068	32,513	13,166	2,417,929
Fund balance June 30, 1980	135,990	76,304	124,625	2,894	41,734	8,748	2,762,980

See Notes to Financial Statements.

MILES COMMUNITY COLLEGE
Statement of Current Funds Revenues, Expenditures, and Other Changes
For the Year Ended June 30, 1980

	Unrestricted	Restricted	Total
Revenues:			
Educational and General:			
Tuition and fees	$ 101,929		$ 101,929
State governmental support	512,350		512,350
District levies	406,119		406,119
Government grants and contracts	15,000	$ 238,447	253,447
Other gifts, grants and contracts		9,387	9,387
Indirect costs recovered	1,854		1,854
Other sources	3,341	561	3,902
Total educational and general	1,040,593	248,395	1,288,988
Auxiliary Enterprises	85,197		85,197
Total revenues	1,125,790	248,395	1,374,185
Expenditures:			
Educational and General:			
Instructional services	553,913	27,543	581,456
Public service	20,592	24,706	45,298
Academic support	93,094	37,326	130,420
Student services	96,096	67,459	163,555
Institutional support	133,887	49,323	183,210
Operation and maintenance of plant	116,982	706	117,688
Student aid	17,095	41,332	58,427
Total educational and general	1,031,659	248,395	1,280,054
Auxiliary Enterprises expenditures	105,423		105,423
Total expenditures	1,137,082	248,395	1,385,477
Other Transfers and Additions:			
Excess of restricted receipts over transfers to revenues		31,094	31,094
Miscellaneous	(2,590)	2,179	(411)
Total other transfers and additions	(2,590)	33,273	30,683
Net increase (decrease) in fund balances	(13,882)	33,273	19,391

See Notes to Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Accrual Basis

The financial statements of Miles Community College have been prepared on the accrual basis except for depreciation accounting and allowance for uncollectible loans as explained in Note 3 to the financial statements. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) as transfers of a nonmandatory nature for all other cases.

Fund Accounting

In order to insure observance of limitations and restrictions placed on the use of the resources available to the College, the accounts of the College are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments, receivables, and the like, is accounted for in the fund owning such assets.

All other unrestricted revenue is accounted for in the unrestricted current fund. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds.

Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

In accordance with accepted accounting principles for colleges and universities, the College does not provide for depreciation of physical properties.

Inventory at the College's bookstore is stated at the lower of cost or market using the first-in, first-out method. Purchases of supply items are charged in the appropriate funds directly to current year expenditures. The recognition of these inventories would not have a material effect on the College's overall financial position.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

Note 2 - Investments

All investments are recorded at cost. Investments owned by the funds at June 30, 1980 are as follows:

Current unrestricted funds	$ 35,600
Current restricted funds	19,400
Plant funds - Renewal and Replacement	40,000
Plant funds - Retirement of Indebtedness	9,000
Total	104,000

Investment income is generally recorded when received. The above investments consist of certificates of deposit bearing interest at 17.05 percent per annum and maturing September 29, 1980.

Note 3 - Allowance for Doubtful Accounts - Loan Funds

No provision for uncollectible National Direct and Nursing Student Loans has been provided for in the accompanying financial statements. The College follows accounting practices for the National Direct and Nursing Student Loan Fund that are in accordance with government regulations. Those regulations do not provide for recognition of interest receivable or for establishment of allowances for uncollectible loans receivable or future loan cancellations by the government. To that extent the portion of the financial statements relating to loan funds are at variance with generally accepted accounting principles. However, 90 percent of any interest receivable or uncollectible

loans and 100 percent of government cancellations would add to or reduce the U.S. Government's portion of the Fund balance and, therefore, would not have a significant effect on the College's over-all financial position.

Note 4 - Bonds and Notes Payable

At June 30, 1980, the College had a total of $100,000 in bonds payable and $821,452 in notes payable. The proceeds of these liabilities were used to finance campus buildings.

The details of the obligations are as follows:

Bonds

Maturity Date	Interest Rate	Amount
1981-82	3.25 %	$ 40,000
1983-85	3.250	60,000
Totals		100,000

District levies are used to make principal and interest payments.

Notes Payable

Housing and Urban Development

The note with a balance due of $191,200 at June 30, 1980 is payable to the United States of America through the Secretary of Housing and Urban Development. The note bears an annual interest rate of 3 percent. Principal payments range between $1,741 and $4,500 and are due semi-annually. Final payment is due July 1, 2012. Student fees are used to make principal and interest payments.

Interim Financing

At June 30, 1980, the College is indebted $630,252 to three Miles City banks for interim financing on the construction of a physical education facility. The notes bear interest at 7.50 percent and are due upon completion of the facility. The College has a commitment from the Farmers Home Administration (FmHA) to provide permanent financing not to exceed $900,000. The term of the loan will be 30 years and will bear interest at 5 percent per annum. The loan will be a special limited obligation of Miles Community College District and will not constitute a general obligation thereof.

The Miles Community College Endowment Corporation has provided approximately $210,000 of the facility's construction costs and has also agreed to guarantee the FmHA loan and to pledge certain of its assets.

The loan will be repaid through the following: (1) a special building fee charged to students; (2) charges for use of the facility; (3) investment income; (4) funds received from the Endowment Corporation; and (5) other revenues of the College.

At June 30, 1980, construction costs totalled $935,691 and the building was approximately 85 percent complete. Details of the interim financing are as follows:

Bank	
First Security Bank & Trust	$ 259,175
First National Bank	259,175
First Citizens Bank	111,902
Total	630,252

The College records interest expense on the above liabilities when paid. The recognition of accrued interest expense would not have a material effect on the College's overall financial position.

Note 5 - Retirement Programs

Retirement benefits are provided for the academic staff through the Montana Teachers' Retirement System (TRS) and nonacademic staff through the Montana Public Employees' Retirement System (PERS). Both plans are operated by the State of Montana and membership is compulsory for the respective classes of employees. Contributions for participants and the College are based on a percentage of the participant's salary.

Defined benefits under both plans are based on years of service and final average salary of the participant. The actuarial present value of vested benefits and the amount, if any, of unfunded past service costs for employees covered under the plans has not been determined. The College's share of the cost of these plans for the year ended June 30, 1980 was $41,414.

Note 6 - Commitments and Contingent Liabilities

The value of unused vacation and sick leave accumulated by employees is not

recorded as a liability. Each full-time employee of the College can accumulate sick leave up to maximum of thirty (30) working days. Upon termination from service, employees are compensated for unused sick leave on the basis of one-fourth (1/4) the accumulated total. Full-time support personnel and administrators are allowed to accumulate no more than one years annual vacation leave. Any unused annual leave not to exceed one years accumulated total will be compensated for when an employee's service is terminated.

ENROLLMENT STATISTICS

MILES COMMUNITY COLLEGE
Supplemental Schedule of Enrollment Statistics
For the Year Ended June 30, 1980

	Total Part-Time Enrollment	Total Full-Time Enrollment	Total Enrollment	Full-Time Equivalent
Summer 1979	92	-0-	92	29.27
Fall 1979	462	283	745	380.93
Winter 1980	572	304	876	438.90
Spring 1980	469	254	723	356.60

AGENCY REPLIES

MILES COMMUNITY COLLEGE

2715 Dickinson
MILES CITY, MONTANA 59301

November 20, 1980

Janke, Winchell, Ehrlick & Co.
720 North 30th Street
Billings, MT 59101

Following is our response to the statements and recommendations which you have made in the audit of Miles Community College.

General

Concur

Extension Classes

Concur.

When class lists are received by the Registrar's Office, a duplicate listing will be forwarded to the Business Office for billing any extension fees due MCC.

Student Loans

Concur.

MCC has hired one additional staff person whose part-time responsibilities in financial aid will free up more time for loan collection. A concentrated effort will be made to bring as many accounts as possible up to date.

An attempt will be made to obtain new promissory notes for the year ending June 30, 1977.

Bookstore

Currently, MCC is reviewing the practice of free textbooks as a source of student aid. Although no firm decision has yet been reached, appropriate remedial action will be taken.

Hail Insurance

Concur.

Property, Plant & Equipment

Concur.

We plan to update the physical inventory at least annually, with periodic tests for accuracy.

All physical inventories--equipment, land, and buildings--will be reviewed for current cost allocation and will be reconciled annually to insure new additions are properly recorded.

Fee Waivers

Concur.

Accounts Receivable

Concur.

Unpaid tuitions will be recorded as receivables and reconciled periodically.

Financial Aid

The packaging policy will be reworded to remove any possible inference of discrimination in the distribution of financial aid. Also, under new legislation, the problems of initial and continuing SEOG awards have been done away with.

Internal Control

Concur.

Checks are being endorsed upon receipt. An endorsement stamp has been obtained for food service use. We currently assist in the food service deposit preparation and review register tapes to cash deposits.

The County Treasurer has been sent a listing for authorized warrant signers.

College Operating Budget

Concur.

We are currently devising a budget amendment form which can be used to document properly authorized changes.

Respectfully submitted,

JUDSON H. FLOWER
President

JHF:ss